EXPORTING OHIO FEEDER CALVES TO ISRAEL

USDA Federal-State Marketing Improvement Program (FSMIP)
Final Report

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I. OUTLINE OF THE ISSUE

Israel lacks sufficient domestic calf production to meet their rising demand for fresh beef. Israel imports approximately 150,000 feeder calves annually, many of them 200- to 330-pound Holstein bulls, from Eastern Europe and Australia. Poland was the largest supplier prior to the discovery of bovine spongiform encephalopathy (BSE) in their herds; now Hungary is their major source. With growing concerns about the health, wholesomeness and performance of the cattle they import, Israeli producers have been seeking new feeder calf suppliers. They are looking to U.S. sources, including Ohio. Israel needs at least 8,500 animals per month to meet current demands. The main concerns have been veterinary requirements, prices and shipping arrangements. Discussions with state and federal government officials, the Israeli Embassy, Israeli importers and with Ohio producers led first to a preliminary survey of the potential for imports of feeder calves to Israel from Ohio and, based on the outcome, to a FSMIP grant (see below).

Ohio's cattle industry: description and needs

Ohio has a small but significant cattle industry. Beef cattle number about a quarter million, and there are about 30,000 beef farming operations. Ohio cattle producers are typically small operations, averaging less than 20 cows. Most cattle are produced on part-time farms. These producers have benefited least by the industry's consolidation and vertical integration.

The Ohio Cattlemen's Association, and some new cooperatives and Ohio State University Extension, are helping small beef producers become more competitive, such as by group marketing of feeder calves and focusing on premium cattle in order to give smaller producers in southern and eastern Ohio more marketplace leverage.

Until the 1960s, many feeder cattle were shipped from western states to Ohio for growout. As Ohio has become more densely populated, the trend has reversed, and now about two-thirds of the beef feeder calves produced in Ohio are shipped to western U.S. states.

Some Ohio beef producers seeking new markets want to expand their market to Israel. They are hoping that Israeli consumers, as in the U.S., are willing to pay a premium for consistent, top-quality beef calves. Ohio producers may have another advantage in the Israeli market: Ohio is one of only 18 states with a low incidence of blue-tongue disease. Israeli veterinary authorities will probably require only a seven-day quarantine upon arrival in Israel, vs. 30 days for calves from other states.

II. HOW THE ISSUE WAS APROACHED VIA THE PROJECT

Project goals

- Increase market opportunities and profitability for cattle producers in Ohio, and eventually in other Midwestern states, by supplying live feeder calves to Israel.

- In the longer term, provide, through Israel, Ohio feeder calves, butcher bulls or both, to Jordan, Egypt and other Middle Eastern countries.

Project objectives

- Identify and involve interested Ohio producers.
- Characterize the supply and market potential.
- Identify and educate Israeli buyers about the availability and benefits of Ohio feeder calves.
- Establish market connections that will result in trial shipments and contracts for Ohio producers.
- Lay the groundwork for the next steps in this process.

Prior to receiving the FSMIP grant, the Cleveland-based Negev Foundation conducted a preliminary study to determine the feasibility of Ohio as a new source for bull calves, and helped facilitate discussions between Ohio producers and Israel government entities. As talks progressed, the FSMIP grant funded a more detailed evaluation and a trade mission to Israel in February 2004.

Results of the preliminary Israeli study

The study determined that, because of shipping costs, U.S. calves *may* be more costly to import, by up to 20%, depending on shipping arrangements, than "commodity" calves from Australia and elsewhere. But Ohio feeder calves may offer quality advantages that would justify a higher cost (e.g., better breeds; better taste; a higher proportion of calves—and of carcass sections—that meet kosher slaughter requirements; low incidence of blue-tongue disease). The study recommended trial shipments to test the results produced by Ohio calves.

As a result of the preliminary study, Tnuva, Israel's major agricultural marketing cooperative, expressed interest in purchasing Ohio feeder calves. They recognized the value and opportunity of marketing premium American beef in Israel. Tnuva anticipates that, once Ohio beef products are introduced to the Israeli market, they would be accepted and consumers would be willing to pay a premium. The same may hold true at every level of beef marketing, including restaurants and supermarket chains. Tnuva has also committed to a large new investment in slaughterhouse facilities in Beit Shan.

III. CONTRIBUTION OF PUBLIC OR PRIVATE AGENCY COOPERATORS

The Ohio Department of Agriculture contracted the Negev Foundation that, in conjunction with the Ohio Cattlemen's Association, other trade associations, Ohio shippers, and OSU Extension, determined the supply potential, production and transportation costs and logistics. The Negev Foundation also helped organize the trade mission and agenda in Israel, and coordinated the other U.S. and Israeli subcontractors and Israeli government agencies and trade groups.

The February 2004 trade mission sent eight Ohio cattlemen, which included trade association representatives (Ohio Cattlemen's Association, U.S. Cattlemen's Association, Ohio Beef Council, Ohio Pro Beef Alliance) Ohio Department of Agriculture officials (including ODA Director Dailey), an elected county commissioner and Ohio State University faculty and extension staff to Israel.

The Ohio Department of Development contributed staff time in Ohio and in Israel.

The Negev Foundation, which developed the Ohio-Israel Agriculture and Rural Development Initiative (of which this project is a part), contributed staff time towards organizing the trade mission, drafted the FSMIP grants and reports, analyzed data and participated in the trade mission. They also contributed some of the mission expenses, and leveraged additional contributions in Israel from the Israeli Beef Breeders Association and other Israeli organizations.

IV. RESULTS AND CONCLUSIONS

1. Trade mission materials

We drafted reports on (1) Israel's beef sector, which we gave to trade mission participants prior to the mission (Attachment 1), and (2) Ohio's beef cattle supply and genetics, which we gave to prospective Israeli buyers and others during the February 2004 trade mission (Attachment 2).

2. Ascertain how Ohio feeder calves compare to competitors' calves

We evaluated domestic beef cattle, domestic dairy herd culls, and imports from Hungary and Australia. During the trade mission, we saw many of these calves and spoke with importers and growers. They and trade mission participants believe that Ohio calves, especially the beef breeds, will perform better.

<u>Beef breeds</u>

The Israeli market prefers European breeds to British breeds. Most imported Australian calves are Droughtmaster, and some smaller lots of Hereford, Angus and U.S. Brangus genetic lines. Low-content Bos Indicus-infused cattle are becoming more acceptable, particularly in the Palestinian controlled areas of Gaza.

Israel has some 80 beef breeds, but they rely on four breeds (in order of prevalence): Charolais, Simental, Limousin, Simford.

Most Ohio beef herds are crossbred (animals containing two or more breeds). Angus, Simental, Limousin, Charolais, and Hereford are the major breeds. New dairy operations in Ohio,

developed by Dutch immigrants, produce many Holstein bull calves, which could be an additional feeder calf source, especially if Israeli buyers like Holstein/beef-breed cross-breeds.

Kosher issues

Almost all male beef calves in Israel, imports and domestically produced, are bulls. Bull calves provide greater value than steers, because bulls grow larger forequarters. Kosher meat must come from the forequarters of kosher calves. (There are exceptions, such as a labor-intensive slaughter that de-veins the forequarters and hindquarters, which renders the entire carcass kosher. This occurs in some Israeli Sephardic [of Spanish or Arab country origin] communities, although the majority of beef consumption in Israel is forequarter beef only.) Whether a calf is kosher in the first place is determined only at slaughter, when the lungs undergo a visual inspection for lesions and general healthiness.

In Israel, kosher meat has a much higher price, often 50% above the non-kosher price. A kosher carcass will bring a $200/head premium over a non-kosher carcass. The source and treatment of calves affects the kosher percentages of the carcass. Better animal husbandry produces healthier cattle—and a greater percentage of kosher carcasses. Calves from the Israeli beef herd have yielded over 85% kosher carcasses. Calves from the Israeli dairy herd have kosher percentages of between 55-75%. The percentage from Polish dairy calves was similar. Australian calves have yielded about 60%-75% kosher carcasses.

Because of the substantial price premium for kosher meat, the percentage of kosher carcasses produced by Ohio feeder calves, in terms of the whole carcass and the proportion of forequarters, will be a factor in the long-term profitability of the trade. It may be difficult to determine the kosher percentages of Ohio calves without a test program in Israel, although an Ohio State University meat scientist familiar with kosher issues has been working on these issues in Ohio.

3. Characterize trends and develop predictions of Israeli markets for Ohio/U.S. feeder calves

Israel's beef needs

As demand for fresh beef has increased through increased affluence and relaxed trade restrictions, the Israeli market for live feeder beef calf imports has grown. Until the mid-1990s, about two-thirds of Israeli beef consumption was imported frozen beef from South America, and one-third fresh beef from domestic slaughter of dairy culls (about 60,000 head) and from the kibbutz system's small 50,000-60,000-head beef herd. Israel's beef and dairy industries are intensive production systems that rely heavily on expensive, concentrated feeding regimes. Calf production is limited by the extent of year-round and seasonal pasture. There is virtually no additional pasture. Any additional young livestock must be imported.

Feeder calf imports have risen to more than 100,000 head each year. Until 2002, low-quality dairy herd calves from Eastern Europe and beef calves from Australia had filled that demand. The majority of imports, 84,500, were for fattening and slaughter. All of these were young animals weighing less than 240 kg (500 lbs) each. (Calves below 240 kg can be imported duty-free, because they are considered raw material for value-added operations in Israel.) Palestinian importers brought in about 30,000 of those, mostly from Australia—22,000 for fattening and the rest for immediate slaughter.

There have been two primary lines of trade: small calves, 80-100 kg (175-240 lbs), primarily excess bull calves from dairy herds, were shipped by air almost weekly from Poland until the spring of 2002. Larger calves, 220-240 kg (450-500 lbs), have been imported by sea from Australia. These bull calves are pasture-raised beef varieties; about 40,000 head were imported to Israel in 2001.

The average net weight of slaughtered cattle in Israel is about 450 kg (990 lbs), less than the U.S practice of slaughter at about 550 kg (1,200 lbs) or more.

Israel's interest in U.S./Ohio feeder calves

Israel's beef industry anticipates major expansions, and will need more imports to do so. Large and small enterprises, kosher and non-kosher enterprises alike have indicated that they would like to import Ohio calves, and want to see how various Ohio/U.S. breeds perform in Israel.

Quality along with quantity

Israeli herds have considerable genetic mixing. Some Israeli cattlemen, long grappling with inconsistent slaughters, would like to know how to standardize and predict quality before slaughter. According to several Ohio trade mission participants, better consistency is achievable through genetics and careful management, since tenderness is largely hereditary. Such an approach would work with premium beef, but is not feasible with commodity beef.

The Israeli public, though now eating more fresh beef, has regarded beef as an undifferentiated commodity, although trade mission participants learned that this view may be evolving. Among the Israeli public, beef tenderness counts first, then taste. Leanness is important. Israelis have not been interested in marbling, because of health concerns. The recent Russian immigrants (which now number about one million) prefer marbled beef. Still, as more fresh beef is becoming available, more Israelis are developing a taste for marbled meat.

Thus, there could be a new niche for high quality Ohio beef, which might make a higher price more palatable to Israeli consumers. Price will play an important role in determining the Ohio market share, but other studies indicate that, although Israel's food markets are highly price sensitive, Israeli consumers appreciate quality and are willing to pay a premium of up to ten percent or more for high-quality products. Branding and market development have created stable markets for many other U.S. agricultural products in Israel.

There is a need for market development to educate the public. Israeli producers share this belief, and are currently planning several efforts to upgrade and promote Israeli beef over imports. These efforts include new packaging and distribution centers. New market players, Tnuva among them, have very recently entered the beef-marketing field, and some beef is now marketed by brand name.

Factors that can make Ohio beef competitive include:

- Demonstrating that Ohio calves can provide a higher return to growout operations than competitive calves by providing better taste, higher meat-to-live weight ratios, higher percentages of kosher slaughter in full-grown calves, or all three factors.
- Having sea transport time count as Israeli quarantine time, skipping the need to transport to quarantine and then to feed lots in Israel.
- Establishing centralized supply centers and logistic arrangements in Ohio to reduce Ohio producers' shipping costs.
- Arranging long-term sea transport to reduce costs.
- Changing Israeli production towards heavier bulls for slaughter.

Israel's Moslem population of 1 million provides a market for kosher food, which meets Moslem halal dietary requirements. Other Middle Eastern countries could be a market as well.

4. Determine potential market size and geographic scope for Ohio feeder calves within Israel, and in the West Bank and Gaza

Israeli beef consumption has increased from about 80,000 tons in 1997 to over 105,000 tons in 2002, a result of population growth and increased standard of living. This trend is expected to continue.

Tnuva's first slaughters were anticipated for September 2004. They plan to slaughter 100 head per day, eventually 200-300 head per day. By 2007, they want to slaughter 40,000 bulls—and to control 50% of Israel's beef market. Tnuva wants to provide packaged fresh beef in supermarkets, something that does not yet exist in Israel. About half their cattle will be Holsteins, half cross-breeds. Tnuva wants to experiment with different beef breeds. Initial trials with steers, which got too fat during intensive feeding trials, were not promising, but they would consider additional trials with Ohio/U.S. steers.

5. Identify potential marketing strategies

Israeli cattlemen and processors consider U.S./Ohio calves to be better than Australian and Hungarian calves, which translates to more profit for the importer or the feed lot operator. If

Ohio producers can provide the calves (which they believe they can), in adequate quantities, have a reasonable protocol and price, most if not all of the cattlemen and processors with whom we met are ready to buy and try Ohio calves.

Since Israeli cattle producers can easily obtain Holstein calves, the Ohio cattlemen thought to offer breeds that were harder to obtain form other sources, and provide management and feeding ration assistance to get the Israelis started. The Ohio cattle will need to adapt to Israeli feedlots.

Some of the smaller beef breeders, in order to participate, would want to synchronize their calves to make them more uniform, a process that might take up to 18 months. (Any sooner would simply have buyers pick from existing herds.) If shipping smaller calves (under 90 days), there should be no problem in supplying bulls, which are normally castrated at five months.

There was some discussion about forming partnerships between Ohio and Israeli feedlots. Ohioans might own, say, 25% of the shipped calves. Such an option might help finance a portion of the sales.

6. Evaluate production and transportation attributes and ranges of costs

We compared purchase prices and shipping costs of calves from Ohio, Eastern Europe and Australia, as well as from Israel's domestic herd. (See Attachment 3.) Although Ohio cattle prices are comparable to domestic and Australian and Hungarian beef calves, transportation costs still make the overall costs higher.

Several Israeli cattlemen with whom the trade mission participants met had independently researched the U.S. market, including Ohio, last year. They found that U.S. cattle have the quality they were after, that cattle prices were reasonable and that Ohio would be a good source. But there were two problem areas: (1) Certification of veterinary protocol, and (2) transportation costs and logistics. They did not consider either to be insurmountable, especially the latter, if done by volume or positive space or per open space.

Israel has about 700 feedlots. Although most of Israeli beef cattle operations are in the northern parts of the country, there is interest in starting feedlot operations in the south. One southern area, Ramat Negev, is considering converting an ammunition dump area near the Egyptian border into a feedlot. The site already has a road and fence infrastructure, and a lot of concrete flooring.

Israel's southern Mediterranean port, Ashdod, could serve as a port for southern feedlots. So could Port Said, Egypt, which could have additional economic and political benefits to Israel and the U.S. There is a free-trade area on the Israeli-Egyptian border.

7. Feb 6-14 2004 trade mission to Israel

Participants met with potential buyers, industry and government representatives; the U.S. ambassador and embassy agriculture staff; representatives of Israeli government research institutes; the Beef Cattle Breeders of Israel; private breeding and research facilities; Israel's largest marketing cooperative (soon to be its largest beef producer); regional/local government R&D and economic development entities; the Ohio Department of Development's Middle East office; and with Israel's Minister of Agriculture. They visited feedlot operations, studied kosher requirements, toured supermarkets, and explored preferred breeds and attributes of feeder calves. (See Attachment 4: trip report.)

8. Debrief and follow-up on trade mission

Trade mission participants met on April 28, 2004 to debrief and discuss next steps. When the trade ban is lifted (see below), trade mission participants plan to follow through, especially with their trade association constituents.

9. Dissemination within Ohio

Several participants wrote newspaper and trade association articles that discussed the mission to Israel (Attachment 5).

10. Israel's current ban on beef and cattle imports

On Dec 25, 2003, only a few weeks prior to the mission, Israel's Veterinary Services banned all U.S. beef and cattle imports because of a single case of BSE in Washington State. Since the only beef products with ongoing trade were about 500 tons of liver and tongue that are imported annually, there has been little pressure for Israeli officials to make any broader decisions quickly.

One month before the BSE outbreak in Washington State, the Israelis had wanted assurances from the U.S. that calves were not fed any animal protein but milk. The Israelis also wanted assurance that no meat or bone meal was fed to mothers. Israel's Veterinary Service recognizes the need to import beef and feed, and may be willing to relax some demands. For one, they might be willing to consider bringing 2,000 240-kg calves to a single, sealed quarantined feedlot. In the past, Israel has given protocol waivers for breeding cattle.

11. Next steps

1. Resolving BSE and other outstanding veterinary protocols. USDA's Animal and Plant Health Inspection Service (APHIS) and Israel's Veterinary Service need to resolve BSE and other veterinary protocol issues. Until the BSE issue is resolved, Israeli regulators

appear to be unwilling to work out other health protocols. The Israeli cattlemen and the trade mission participants seemed to agree that the Israeli Veterinary Service draft protocols were excessive, and did not promote animal health so much as impose a non-tariff trade barrier. We have asked the Israeli agriculture minister, and the USDA, for help in resolving these issues. Tim Sword, the Ohio Department of Agriculture's international trade specialist, who will be in Israel November 19-25, 2004 to promote Ohio agricultural products, will meet with Moshe Chaimovitch, the new head of Israel's Veterinary Service, to discuss veterinary protocol issues for feeder calves.

2. An Israeli trade mission to Ohio. The Israeli Beef Breeders Association is planning a fact-finding mission in the U.S. in mid to late March 2005. Up to 20 Israeli cattlemen will visit herds in several U.S. states; they will spend three days in Ohio. This mission will provide potential Israeli buyers a better understanding of U.S. and Ohio beef and dairy cattle production systems, the live cattle export process and animal health issues.

3. Trial shipments. The present study has laid the groundwork for a trial shipment program, to test the acceptability and performance of Ohio feeder calf shipments to Israel. A single planeload of 800 calves should suffice for the initial shipment. Once the ban is lifted, we and the Israelis will determine the options to be included in the trials—delivery schedule and each step in delivery logistics, monitoring and evaluating, consumer acceptance of the meat. Were a trial shipment to occur within, say, one year, it would require one or more Israeli partners with an existing feedlot.

V. CURRENT OR FUTURE BENEFITS TO BE DERIVED FROM THE PROJECT

Our project helped to ascertain what the Israeli markets are seeking now and in future years. Ohio participants gained a greater understanding of these markets, and are now better prepared to make decisions about how and where to proceed. Equally important, they established the kind of long-term business relationships necessary to enter and remain in Israeli markets. Once the BSE issue is resolved and health protocols are established, both sides anticipate that export markets will open for Ohio feeder calves.

In the meanwhile, The Negev Foundation and several of the trade mission participants are exploring related projects:

- Exporting Ohio cattle genetics and artificial insemination techniques. Several trade mission participants are interested in exporting cattle genetics (sperm and frozen embryos), which are unaffected by the BSE ban, along with some novel artificial insemination and estrus synchronization techniques, developed by Ohio State University researchers, that can increase early-season pregnancies and produce more uniform calf crops, to Israel. Initial Israeli response has been positive.

- Automatic calf feeder. Trade mission participants saw and were intrigued with an Israeli-developed automatic calf feeder system they saw at one of the Israeli kibbutzim they

visited. The device, which senses animals in chutes, monitors intake, maintains records and prevents overfeeding, utilizes American, Dutch and Israeli components and Israeli software. Gavish, the manufacturer, would like to establish a U.S. operation in Ohio for engineering, software development and marketing. One of the Ohio cattlemen has expressed interest in finding a partnering U.S. company. Gavish may provide model units to several Ohio dairy operations, and would like to develop a study, perhaps with Ohio State University, of the system's efficacy in Ohio conditions.

- Other Ohio livestock purchases. An Israeli livestock importer expressed interest in purchasing some Tennessee Walking horses from an Ohio livestock exporter who participated on the trade mission. If and when the importer comes to Ohio, he will be taken to see beef cattle herds.

VI. ADDITIONAL INFORMATION AVAILABLE

Ohio Department of Agriculture: www.ohioagriculture.gov
The Negev Foundation: www.negev.org
Ohio Beef Council: www.ohiobeef.org
Ohio State University Extension Beef Team: beef.osu.edu
Ambal – Israeli Beef Breeders Association: ambal00@netvision.net.il
U.S. Embassy – Tel Aviv: www.usembassy-israel.org.il
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ATTACHMENTS

A. Israel's beef industry: an overview.
B. Ohio's beef cattle supply and genetics.
C. A comparison of domestic and imported feeder calf costs.
D. Trip report, Feb 6-14, 2004 Trade mission to Israel

E. Newspaper and trade association articles about the trade mission
F. Draft Israel Veterinary Service import protocols for U.S. feeder calves, February 2001
G. Israeli import protocol for Hungarian feeder calves
H. Israeli import protocols for Australian feeder calves